

Message Text

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ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02

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R 191552Z SEP 75

FM AMEMBASSY THE HAGUE

TO SECSTATE WASHDC 6680

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

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USMISSION EC BRUSSELS

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UNCLAS SECTION 1 OF 2 THE HAGUE 4768

E.O. 11652: N/A

TAGS: EFIN, ECRP, NL

SUBJECT: NETHERLANDS 1976 BUDGET

REF: THE HAGUE 4387, 4614

1. SUMMARY: GON SUBMITTED DRAFT 1976 BUDGET TO
PARLIAMENT ON 16 SEPTEMBER. PROPOSED EXPENDITURES
ARE HFL 77.9 BILLION (HFL 2.70 EQUALS \$1.00) UP 24 PERCENT
FROM THE DRAFT 1975 BUDGET. REVENUES ARE EXPECTED TO RISE ONLY 8
PERCENT TO HFL 62.8 BILLION, RESULTING IN A PLANNED DEFICIT
OF HFL 15.1 BILLION. GOVERNMENT PROPOSALS INCLUDE
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HFL 3 BILLION IN NEW REFLATIONARY MEASURES, WHICH
BRING TOTAL ANTICYCLICAL PACKAGE FOR 1976 TO
HFL 7.3 BILLION. LARGE INCREASE IN EXPENDITURES
IS IN SPITE OF EXTENSIVE TRIMMING ON MOST ASPECTS

OF THE BUDGET EXCEPT REFLATIONARY MEASURES AND DEVELOPMENT ASSISTANCE. END SUMMARY.

2. REFLATION: GOVERNMENT IS CONTINUING PROGRAMS UNDERTAKEN IN 74-75 EFFORTS TO GET ECONOMY MOVING AGAIN, AND IS ADDING HFL 3 BILLION IN NEW PROGRAMS. LARGEST SINGLE MEASURE IS POSTPONEMENT OF INCREASE IN VAT FROM 16 PERCENT TO 18 PERCENT FROM 1 JANUARY TO 1 JULY. REDUCTION IN GOVERNMENT REVENUE WILL BE HFL 0.8 BILLION. OTHER MAJOR ELEMENTS IN NEW PROGRAMS ARE: TEMPORARY CONTRIBUTIONS TO FAMILY ALLOWANCES FUND: HFL 0.6 BILLION; MEASURES AIMED AT CREATING EMPLOYMENT IN THE CONSTRUCTION INDUSTRY: HFL 0.65 BILLION, ASSISTANCE TO INDIVIDUAL FIRMS: HFL 0.55 BILLION; MEASURES TO IMPROVE LABOR MOBILITY: HFL 0.35 BILLION; EXTENSION OF ACCELERATED DEPRECIATION: HFL 0.05 BILLION. INDEPENDENT OF THE REFLATION PACKAGE, BUT ALONG SAME LINES IS HFL 0.5 BILLION PROGRAM OF GUARANTEES OF LOANS TO PRIVATE INDUSTRY. TOTAL PLANNED REFLATIONARY PACKAGE NOW TOTALS HFL 7.3 BILLION FOR 1976 COMPARED TO A FINAL PACKAGE OF HFL 4.1 BILLION IN 1975.

3. EXPENDITURES: WITH EXCLUSION OF ANTICYCLICAL PROGRAMS, BUDGET CALLS FOR 17 PERCENT INCREASE IN EXPENDITURE COMPARED WITH 1975 PROPOSALS. INCREASE ADJUSTED FOR INFLATION IS 8 PERCENT. MAIN COMPONENTS OF INCREASE ARE HIGHER THAN EXPECTED PAYMENTS FOR INTEREST ON NATIONAL DEBT AND FOR UNEMPLOYMENT COMPENSATION. ADDITIONAL UNANTICIPATED INCREASES ARE FOR LOCAL GOVERNMENTS, GOVERNMENT EMPLOYEES' SALARIES AND ADJUSTMENTS IN OLD AGE PENSION SCHEME. MOST ASPECTS OF BUDGET, WITH EXCEPTION OF ANTICYCLICAL PROGRAMS AND RELATED UNEMPLOYMENT PROGRAMS, SUFFERED CONSIDERABLE TRIMMING IN EFFORT TO AVOID UNMANAGEABLE DEFICIT. MAJOR EXCEPTION IS DEVELOPMENT ASSISTANCE WHERE STRONG GOVERNMENT COMMITMENT LED TO AN INCREASE TO HFL 2.1 BILLION, WHICH, WITH AID OF CYCLICAL DOWNTURN, MET UNCLASSIFIED

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POLICY OBJECTIVE OF 1.5 PERCENT OF NET NATIONAL INCOME. IN COMPARISON WITH MULTIYEAR BUDGET PROJECTIONS MADE IN 1975; DEFENSE SECTION OF BUDGET SUFFERED MOST, LOSING HFL 265 MILLION (APPROX 3 PERCENT), WITH NAVY TAKING MOST OF CUTBACK.

4. REVENUES: GOVERNMENT REVENUE PICTURE FOR 1976 DOMINATED BY HFL 3.0 BILLION REDUCTION IN EXPECTED REVENUES RESULTING FROM LOWER ECONOMIC GROWTH. AS A RESULT, NUMEROUS ADJUSTMENTS ARE BEING MADE IN AN EFFORT TO MINIMIZE THE EFFECTS ON DEFICIT WITHOUT REDUCING RELATIONARY EFFORTS. GROWING SALES OF NATURAL GAS AT HIGHER PRICES, BOTH AT HOME AND

ABROAD, HAVE ADDED HFL 1.1 BILLION TO 1976 REVENUES.
CONTINUATION OF 1975 REDUCTIONS IN INCOME AND WAGE
TAXES WILL REDUCE REVENUES BY ABOUT EQUIVALENT AMOUNT.
ADJUSTMENTS WILL BE MADE WITHIN INCOME TAX SYSTEM TO
COMPENSATE FOR 80 PERCENT OF EFFECT OF INFLATION ON PROGRESSION
OF TAXES, BUT ONLY FOR LOWER INCOME GROUPS, IN ACCORDANCE
WITH GOVERNMENT'S POLICY OF "INCOME LEVELLING", UPPER
INCOME GROUPS WILL FACE HIGHER TAXES. OTHER TAX
CHANGES INCLUDE POSTPONEMENT OF VAT INCREASE,
INCREASED EXCISE TAXES ON WINE AND ALCOHOL. INCREASED
TAXES ON TOBACCO PRODUCTS, SUBSTANTIALLY INCREASED
AUTOMOBILE TAXES AND AN INCREASE IN TAXES ON INSURANCE.
NET RESULT IS INCREASE IN TAX BURDEN IN 1976 BY 0.3
PERCENTAGE POINTS TO 30.3 PERCENT OF NET NATIONAL INCOME.
COMPARED TO DECLINE IN 1975 OF 0.9 PERCENTAGE POINTS.

5. DEFICIT: MAKING ALLOWANCE FOR RETIRMENT OF OLD
DEBT AND FOR LOCAL GOVERNMENT DEFICIT. GOVERNMENT
DEFICIT FINANCING WILL REACH OVER HFL 14 BILLION IN
1976, OR OVER 6.5 PERCENT OF NET NATIONAL INCOME. FUNDS AVAILABLE
THROUGH PUBLIC PENSION FUNDS SHOULD REDUCE AMOUNT TO BE FINANCED ON
OPEN CAPITAL MARKET TO HFL 10.5 BILLION. GOVERNMENT
CONSIDERS AMOUNT ACCEPTABLE IN LIGHT OF CYCLICAL
DEVELOPMENTS, BUT ACKNOWLEDGES THAT RESPONSIBLE
FINANCING WILL BE DIFFICULT AND DELICATE TASK.

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6. COMMENT: WITH EXPORTS MAKING UP 53 PERCENT OF DUTCH NATIONAL INCOME, ANY GOVERNMENT EFFORTS TO STIMULATE THE ECONOMY WILL BE LARGELY INEFFECTIVE WITHOUT AN APPRECIABLE UPTURN IN WORLD TRADE. APPARENTLY RECOGNIZING THIS FACT, GOVERNMENT PACKAGE TO STIMULATE ECONOMY EMPHASIZES IMPROVEMENT IN STRUCTURAL PROBLEMS SUCH AS HIGH LABOR COSTS, PINCHED PROFITS, ENORMOUS BURDEN OF PUBLIC SECTOR (OVER 50 PERCENT) AND THE DOWNTURN IN THE BUILDING INDUSTRY RESULTING FROM THE END OF THE LONG POST-WAR HOUSING BOOM. GOVERNMENT IS RELYING HEAVILY ON WORLD TRADE RESUMING ITS 8 PERCENT PER ANNUMGROWTH PATTERN NEXT YEAR TO MOVE ECONOMY UNCLASSIFIED

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BACK ONTO GROWTH TRACK. DUTCH CENTRAL PLANNING BUREAU, IN FACT, IS BASING ITS FORECAST ON AN IMPROVEMENT IN WORLD TRADE IN THE FINAL MONTHS OF 1975. THESE EXPECTATIONS MAY BE OVER-OPTIMISTIC, AND DISAPPOINTING YEAR IN 1976 COULD SERIOUSLY WEAKEN GOVERNMENT COALITION. GOVERNMENT ALSO FACES SERIOUS PROBLEM WITH FINANCING OF LARGE DEFICIT. IN ORDER TO AVOID DISRUPTING CAPITAL MARKETS, GOVERNMENT MAY BE FORCED TO COVER A SIGNIFICANT PORTION OF THE DEFICIT WITH MONETARY FINANCING, THUS RUNNING RISK OF STIMULATING ALREADY SUBSTANTIAL INFLATION. GOULD

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